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"I happen to believe that intellectual bridges are important. The world of scholarship is too small and too fragile for scholars in different countries to ignore—or worse, deliberately reject—the opportunity to learn from one another's understanding of the legacy of the long tradition of economic scholarship and attempt to apply it to the elucidation of the laws and meaning of economic reality." (Harry G. Johnson, Inflation and the Monetarist Controversy, p. 106.)

I. Introduction

As the above quotation should indicate, this evaluation of Harry Johnson as a macroeconomist will not follow the traditional pattern. There is a very good reason for this: my colleague, David Laidler, has already produced an absolutely first-rate survey of Harry's money and macro contributions. Among the questions that Laidler addresses are: What kind of macroeconomics did Harry expound? How did it evolve over the years? How much did he take from others? Why did the evolution of his thought take the path that it did? The net result of Laidler's efforts is that the profession now has an excellent chronicle of Harry Johnson's contribution to the macro and money literature. Accordingly, I have opted for a rather different perspective within which to view Harry's contributions in the general area of macroeconomics. Specifically, I intend to focus on some of the motivating forces behind Harry's unceasing efforts in all aspects of economics and to draw upon his work in the macro area to elaborate on them. Hopefully, this will provide further insight both as to the role that Harry carved out for himself in the profession and as to the nature and form of his contributions as a macroeconomist.

The above quote from Harry's De Vries lectures provides a personal insight into one aspect of his motivation. Harry was indeed a builder of "intellectual bridges"—between economists on the frontiers of the discipline and the remainder of the profession, between economists in the major centers of learning and those located in the professionally less
accessible areas of the world, between the current state of the discipline and its historical antecedents, and between the economists at large and the general public. His service as one of the profession's most prolific book reviewers (over 150 book reviews) and in his capacity as the profession's editor per excellence attest to the importance he attached to intellectual intermediation, as it were.

For a more comprehensive view of both the motivation behind Harry's unceasing efforts as well as his overall approach to the subject, it is convenient to refer to the very insightful "Memoir" in Encounter written by sociologist Edward Shils. Consistent with the above quotation, Shils notes that in everything that Harry wrote he regarded himself as a "continuator" and an "improver". More importantly, to Harry the accumulation and dissemination of knowledge stood upermost. As Shils notes:

"Harry Johnson was a 'missionary'... The goal of the progress of economics in academic study and in suppression of pride and prejudice in economic policy laid upon him the obligation to travel to innumerable conferences and to teach in many universities... He went to learn from the best and the youngest of his colleagues, to question them about what they had written, to correct their errors and to bring them into the procession of economists who were contributing to the progress of their subject... ."

"He wanted economics to be a science; and in order for it to become such, it was necessary to appreciate what had already been accomplished. He accepted that economics had to progress by improving on what had been done previously. This required unremitting study of the entire literature of economics but it was not enough: it also required the study of new evidence."

As the last sentence indicates, Harry was as much interested in empirical work as he was in theoretical work. This aspect of Harry as an economist often goes unnoticed. The impressive LSE study of the statistical foundations of the monetary approach to the balance of payments represented the last of his many excursions into the empirical side of the discipline.
part, this belief in the value of empirical work was a result of Harry's view that the ultimate goal of theory was to influence the conduct of economic affairs, i.e., to influence policy. And for theory to have policy relevance, it must be subjected to empirical verification.

But Harry realized that even this was not enough to ensure that new developments will have an influence on decisionmakers: "The interest in monetarism and the quantity theory is to be explained more by the fact that policy based on Keynesian theory, and concentrating on fiscal policy, has been an evident failure, and that monetarism is a new idea that promises to do better, than a full-scale scientific testing of the relative strength of the two approaches." This perception led Harry to carry policy analysis much further than most of his colleagues. To deduce policy implications from theoretical-cum-empirical work was not enough: this was to limit focus to the supply side of policy analysis. Harry went the further step of attempting to understand and appreciate the complex web of institutional fabric that impinged on the decision matrix of the policymakers, i.e., to analyze the determinants of the demand for policy analysis. And he did this extremely well, as will be documented to some extent in the final section of the paper dealing with Harry as an institutionalist.

There is a further and somewhat related facet of Johnson's approach to economics that must be recognized. He was as concerned about the process by which knowledge is produced and eventually converted into meaningful policy application as he was in the resulting body of knowledge itself. As Shils notes: "His aim was to understand and explain the zigzagging course of the growth of economic knowledge, and the significance of external social conditions and internal professional relationships on the improvement and retardation of economic analysis." While this theme is very obvious in his monetary counterrevolution article, it also pervades much of his other writings in monetary economics as well.
Finally, Harry believed that it was of uppermost importance to preserve the integrity of economic knowledge. To misuse economics to achieve some further end, no matter how noble the latter might be, was to desecrate it. The thrust of this paper, then, will be to focus on Harry's contributions to macroeconomics both in their own right and as well in light of Harry's overall approach to economics. This dual focus will serve to explain why Harry's writings often took the particular slant that they did and will also facilitate the understanding of his contributions to the discipline. The first broad section of the analysis deals with his general contributions to theory and policy. The raw material for this analysis is the series of macro surveys covering the period from the mid-1950's to the mid-1970's. Essentially this section constitutes Harry Johnson's assessment of modern macroeconomic thought and, more importantly, Harry's perception of how the profession at large misinterpreted the theoretical thrust of the General Theory and the implications that have followed in the wake of this misunderstanding. The final part of the paper focuses briefly on his contributions to understanding the functioning of institutions. Sandwiched between these two is a brief analysis of those of his writings which, while they deal with macro theory or policy, are as much a commentary on, or contribution to, the process by which knowledge is generated and accumulated in our discipline.

II. Harry's Contributions to General Theory and Policy
   A. The Monetary Aspects of the Keynesian Revolution

   The impression that comes across most forcefully and most consistently in Harry's many macro survey articles is that he had a great respect for the analytical contributions of Keynes' General Theory and, furthermore, that these contributions were in large measure left unrecognized by the
"Keynesians". In terms of monetary theory, Harry's view was that Keynes' contribution was two-fold: "to break [via the demonstration that the economy could equilibrate at less-than-full-employment] the quantity theory assumption of a direct connection between money quantity and aggregate demand" and "to emphasize the function of money as an asset, alternative to other assets". More specifically, "I have taken [Keynes'] central contribution to be his conception of money as an asset whose usefulness springs from uncertainty of future asset prices, and the chief limitation of his analysis to be his concentration on expectations of future changes in interest rates as the [only] determinant of the assets-demand for money". In short, "Keynes made the analysis of the demand for money explicitly a branch of capital theory" although his attempt at integrating money into a full capital theoretic approach remained "seriously incomplete".

While Keynes' theory of liquidity preference was extended and generalized by Keynesians to comprise choices between money, bills, bonds and equities, it nonetheless remained seriously incomplete because the influence of price level expectations on asset choices was generally neglected by Keynesian writers. Harry notes that "for explicit analysis of it [price level expectations] one must turn to the modern quantity theory literature, where Milton Friedman's restatement of the quantity theory of money goes far towards providing a synthesis of Keynesian and classical approaches to the demand for money in capital theory terms".

Given the two-fold nature of Keynes' contribution to monetary theory noted above, it is easy to see why Harry hailed Friedman's work and viewed it as an extension rather than as an alternative to Keynesian analysis. The Keynesian revolution left the quantity theory thoroughly discredited on grounds that it was a mere tautology in that it assumed full employment would
prevail and that implicit in the quantity theory was the assumption that velocity was infinitely malleable. Friedman revised the quantity theory by redefining it as "a theory of the demand for money (or velocity) and not a theory of prices or output [and, therefore, freed it from a full-employment relationship], and made the essence of the theory the existence of a stable functional relationship between the quantity of real balances demanded and a limited number of independent variables, a relation deduced from capital theory". 17 Naturally, a crucial ingredient of Friedman's restatement is that it "introduces explicitly, and emphasizes expected changes in the price level as an element in the cost of holding money and other assets fixed as to both capital value and yield in money terms, whereas Keynesian portfolio balance theory almost invariably starts from the assumption of an actual or expected stable price level". 18

In Harry's view, then, Friedman's application of capital theory to monetary theory was not only "probably the most important development in monetary theory since Keynes", 19,20 but as well as best interpreted as an improvement on, and derivative from, the analysis of the General Theory. Given Harry's dislike for labels (Keynesians, Monetarists, etc.,) as well as his passion for viewing progress in economic thought as building upon the work of others, it must have been with a considerable degree of satisfaction that he later noted "in recent writings, Friedman has ceased to refer to the Chicago Oral Tradition, and has admitted that his reformulation of the quantity theory was 'much influenced by Keynesian liquidity preference'". 21,22 Put more directly, in Harry's view Friedman was a "true" Keynesian: In an important sense Milton Friedman's restatement is a much clearer and more enlightening statement of Keynes's essential contribution to the development of monetary theory than the statement of Keynes and his followers. 23
B. Dichotomy, Validity, Neutrality, etc.

From the standpoint of pure theory it was Harry's opinion that the
"most fundamental issue raised by Keynes in the General Theory lay in his
attack on the traditional separation of monetary and value theory, the
classical dichotomy...according to which relative prices are determined
by the quantity of money and its velocity of circulation". The thrust of
this attack was that Keynes shifted the determination of the level of
unemployment and the rate of interest from real theory to monetary theory.
This issue literally consumed a significant proportion of the profession for
the better part of a decade and culminated with Patinkin's, Money, Interest and
Prices the substance of which was the "integration of money and value theory
through the explicit introduction of real balances as a determinant of behavior,
and the reconstruction of classical monetary theory". While Harry regarded
Money, Interest and Prices as a "monumentally scholarly work", he nonetheless
remained convinced that the entire debate was misdirected: "let me say that
I do not think that this particular controversy is of great relevance to
practical work on monetary policy or monetary analysis, or even I think to
monetary theory". In Harry's judgment Keynes, when insisting that a
monetary economy is different than a barter economy, was "trying to draw attention
to the fact that in the monetary economy behavior is based on expectations
about the future and that an important part of that behavior relates to the
demand for money, the hoarding of money and therefore the determination of
interest rates". The dichotomy debate went astray because it was at the
same time "concerned with a monetary economy characterized by minimal uncertainty
whereas Keynes was concerned with a highly uncertain world" and it focussed
essentially on long-run equilibrium whereas Keynes' focus was on short-run
disequilibrium. Once again Harry was voicing his concern over the fact that
able minds in the profession failed to comprehend the significance of Keynes'
contribution. Basically, he felt that this was a clear case of what he referred to in his De Vries lectures as "intellectual backsliding": "It is a...characteristic reflection of the strength of orthodox tradition in economic theory that the challenge of Keynesian theory, which as mentioned was essentially concerned with changing the perspective of monetary theory from long-run equilibrium to short-run disequilibrium analysis, was met by rapidly shifting the debate back to the realm of long-run full-employment equilibrium and focussing on the questions of 'neutrality' of money and the validity or otherwise of 'classical dichotomy' between value theory and monetary theory, issues posed by the classical concern with money as a veil over the barter system...and that quantity theorists have only recently turned to the central Keynesian problem of short-run monetary dynamics."29

Harry wrote this in 1971. Since then, monetary theorists have again begun to jettison their concern with short-run monetary dynamics and re-focus on the longer term or steady state properties of models under the guise of rational expectations. While I have no knowledge of how Harry would view this development, it would certainly be consistent for him to commend it for its analytic insights but at the same time feel that monetary economists were once again abandoning practical policy relevance in a particularly challenging period for the cynosure and intellectual elegance of the "steady state".

C. Macroeconomic Policy

While maintaining a high regard for the analytic content of the General Theory and its role in the advancement of economic theory, Harry became progressively embittered with what he referred to as a "sophisticated type of intellectual opportunism" on the part of Keynes, the result of which had
dire consequences for economic policy, especially for small open economies. One aspect of this was Keynes' decision to assume the presence of a closed economy: "Perhaps the greatest disservice that Keynes rendered the development of economics in Britain was to develop the theory of macroeconomics and money under the assumption of a closed economy". Combined with the assumption of fixed real wages, this led to the extension of Keynesian theory to the open economy under the manifestly unsatisfactory assumption of money illusion on the part of wage earners so that the determination of exchange rates came to be viewed as a relative price phenomenon rather than an absolute price phenomenon, i.e., an extension of pure trade theory rather than as an extension of monetary theory. What Harry deemed to be particularly opportunistic was that Keynes, in succession, could a) protest against the unemployment-creating aspect of Britain's return to the gold standard in 1925 with an overvalued pound, b) oppose protection as an employment-creating policy without adequately pointing out that protection was proposed because of a political refusal to contemplate a currency devaluation, and c) then produce a theory of unemployment which laid the blame for it on the inherent nature of capitalism itself or, by implication, on the failure of the authorities to use domestic fiscal and monetary policy effectively rather than on the international monetary system and on Britain's relations with it. The consequence for British policymaking "has been a pronounced and persistent tendency both to regard the country's international economic relations as peripheral and to concentrate instead on domestic fiscal and monetary measures as panaceas for the country's chronic problems of international competitive weakness and slow growth".

The implications for policy analysis extended far beyond Britain. In a rather characteristic juxtaposition of external influences and the development of economic thought, Harry argues that the closed-economy theoretical assumptions, despite their obvious irrelevance for most nations, were powerfully reinforced
by the transfer of scientific leadership in economics from Britain to the U.S.A., a country whose near self-sufficiency renders the closed-economy assumption more realistic. Consequently, it has been largely left to members of the economics profession from "small open economies" to work out the theory of economic policy in an international economic context. Put somewhat differently, the monetary approach to the balance of payments which should have flowed naturally from an open-economy view of Friedman's elaborations of the monetary aspects of the General Theory materialized only in the late 60's and early 70's. In a rather sweeping, but certainly characteristic, generalization Harry notes that as a result of this turn of events, "the problem that has preoccupied international monetary experts and commentators for two decades, the alleged prospect of an imminent shortage of international liquidity and need to assure a sufficiently large and rapidly growing stock of international reserves through new institutional arrangements, is an exact inversion of the real problem of the system, which is to establish international control over the magnitude and rate of growth of international reserves and to use and to restrain the rate of growth of these reserves to a non-inflationary pace".  

However unhappy Harry may have been with the opportunism of Keynes it was upon the "Keynesians" that he came down the hardest. For it was in their hands that "a theory in which money is important turned into a theory that money is unimportant". Naturally, his concern with the development of economic knowledge led him to seek out the answer to this paradox. Once again, he was, as Shils notes, "trying to understand and explain why distinguished talents went astray in pursuit of economic truths". Part of the answer, as noted above, lay in Keynes' own assumptions of a closed economy and of failure to distinguish between nominal and real magnitudes—assumptions that the following generalization of Keynesians accepted too readily. But there were other factors as well. The Keynesian
model incorporated two special cases where monetary policy could not work and where fiscal policy alone could stimulate economic activity--and both these cases were generalized in the post-Keynesian era. The first was the assumption of absolute liquidity preference--a situation in which monetary policy could not reduce interest rates--and the second involved the inelasticity of spending with respect to interest rates (as documented by the Oxford Institute of Statistics) through "survey research of a kind now regarded as hopelessly superficial". These features, combined with the fact that Keynes "overgeneralized a particularly bad recession" which Alvin Hansen converted "into a general theory of the tendency of capitalism to wallow in secular stagnation" led to the demise of the role of money in the Keynesian model: "Hence monetary policy, which Keynes had regarded as normally a powerful tool of policy, became virtually completely discredited, and fiscal policy, which he regarded as a tool that might be necessary only in a deep depression, became established as the central and only reliable tool of economic policy." Because this implied that interest rates had little or no influence on economic activity via aggregate demand, they may as well be kept as low as possible, and as a result central bankers were, up until the Accord, relegated to the occupation of minimizing the cost of placing debt.

The post-Accord revival in monetary policy, spearheaded by the work of Robert Roosa and commonly referred to as the "Availability Doctrine", is the intellectual offspring of pre-Accord role of central banks as bond-supporting agencies, and, therefore, of "Keynesian" interpretations of the policy content of the General Theory. Essentially the Availability Doctrine offered a "solution to the conflict between the belief that a large widely-held public debt obliged the central bank to confine interest rate movements to narrow limits, and the belief that large interest rate changes
were necessary to obtain significant effects on spending".40 The doctrine comprised two central propositions and both served to alter the thrust of economic policy. The first was that widespread holding of public debt, particularly by financial institutions and corporations, facilitates monetary control by transmitting the influence of interest rate changes effected by open market operations throughout the economy. The second was that small interest rate changes could, by generating or dispelling uncertainty about future rates and by inflicting or eliminating capital losses that institutions were unwilling to realize by actual sales (i.e., the locked-in effect), achieve significant effects on spending even if the demands of spenders for credit were interest inelastic (via influencing the availability of credit to borrowers by altering the terms of credit and the degree of credit rationing). As a result of this latter factor, which really focussed on the imperfection of credit markets, central banks and governments across the western world were provided with a rationale for credit controls based on the availability rather than the cost of credit.

Although obviously related, the former factor probably proved to be the more significant. In the hands of the Radcliffe Committee with its emphasis on the "liquidity" in the economy as the key variable for monetary analysis and policy, it "represented the high tide of Keynesian disbelief in the practical relevance and theoretical importance of money as formulated in traditional monetary theory".41 In his typical style of attempting to lend perspective to the manner in which knowledge is generated and accumulated, Harry argues that the Yale School, under the leadership of James Tobin, "may be interpreted as providing belatedly the intellectual foundations of the Radcliffe Committee's position on monetary theory and policy--what has come to be described in the American literature, following a phrase in Tobin's
important essay on commercial banks as creators of money, as the 'New View of Money'". 42

"The crucial distinction for the Yale School, then (as for the Radcliffe Committee), is between the financial sector and the real sector (or between stock and flow analysis) rather than between the banking system and the rest of the economy (as various versions of the contemporary quantity theory would have it) or between liquid and illiquid assets (which Leijonhufvud interprets to be the essential distinction in Keynes's own theory)." 43 One of the implications of this approach where money is just one of many assets and banks are just one of many intermediaries (to paraphrase Gurley and Shaw) is the necessity to "regard the structure of interest rates, asset yields, and credit availabilities rather than the quantity of money as the linkage between monetary and financial institutions on the one hand and the real economy on the other" 44—hence the relevance to Radcliffe. While Harry readily granted that this general equilibrium portfolio analysis was "long on elegant analysis of theoretical possibilities" 45 its practical relevance was marred by the fact, noted above, that it assigned to money an absolutely certain yield of zero percent, or what is the same thing assumed that the prices of real goods and services to be fixed autonomously in terms of money and, therefore, "precludes consideration of many of the aspects of the problem that would naturally occur to a quantity theorist". 46 Included among these is the proposition that changes in market interest rates may be a very poor indicator of the ease or tightness of monetary policy. Harry not only linked Radcliffe to Yale, (or vice versa) but went the further step of tracing this line of analysis back to the General Theory itself: "The absolute liquidity trap with bonds serving as perfect substitutes for money [is] equivalent to the Radcliffe Report/Gurley-Shaw contention that money is merely the small change of the financial system and that financial intermediation makes the elasticity of demand for money very high." 47
It is probably not an overstatement to suggest that as far as most central banks were concerned the Radcliffe conception of how money interacts with the economy was the rule rather than the exception over the 1950's and 1960's. Certainly the operations of central banks of Great Britain, Canada and the U.S.A. (as reflected, respectively, in the Radcliffe Report, the Report of the Royal Commission on Banking and Finance, and the Commission on Money and Credit) were more concerned about the cost and availability of credit than they were about the rate of growth of the money supply, however defined. This "money does not matter" philosophy on the part of the central bankers was matched on the part of popular Keynesianism by the adoption of non-monetary theories of inflation. To these, and to Johnson's assessment of them, I now turn.

D. Keynesian Inflation Theories

Keynesian theorizing about inflation, as reflected in actual policy formation, rested on much the same set of principles that underlay the rise of the availability doctrine--the possibility of a liquidity trap, the closed economy mentality, and the lack of a distinction between monetary and real magnitudes. With characteristic generalization, Harry argued that Keynesian inflation theories rested on some rather naive and ad hoc ideas:

"that inflation is generally due to excess demand on production capacity, though it may on occasion be due to 'excessive' claims for real income by particular groups of workers or capitalists, implemented by wage demands (assumed to be unchecked by employer resistance) or by inflationary price increases (assumed to be unchecked by consumer resistance). This idea involves the commonplace distinction between 'demand pull' and 'cost-push' inflation, which in technical terms attributes the inflation to the budget of value theory being irrelevant either because it exceeds the community's capacity to produce, or because it becomes inoperative in the presence of monopoly power... . In cases of 'demand pull' inflation, the standard and obvious Keynesian policy recommendation is to cut aggregate demand down to the dimensions of aggregate supply by fiscal policy restraints... . With respect to 'cost-push' inflation the obvious policy recommendation for people naive enough to accept the concept in the first place is the
equally naive proposal to stop the pushing, either by appealing to the pushers' sense of decency or if necessary by subjecting them to social discipline. The intellectual flowering of this primitive appeal for flouting of economic laws by social conventions and constraints appears in the solemn recommendation by authoritative economists of the need for an incomes policy... An incomes policy involves the self-contradicting aims of achieving an ethically-dictated alteration of the distribution of real income produced by economic forces, and of achieving the economically-determined distribution of real income without price inflation by piercing the veil of money."

What seemed to be of uppermost concern to Harry was the virtually complete inversion of Keynes's contribution that Keynesian inflation theory embodied: "It is an ironic paradox that Keynesian economics, having begun with a head-on attack on the alleged classical fallacy that money is merely a veil over the workings of a barter economy, should have wound up with the attempt to persuade the public that money is in fact merely a veil, and that society should not only recognize this but revert to the economics of barter--or even revert still further to the feudal notion of the 'just price'--and reduce money to the role of a pure numeraire." "

As a consequence, the problem of inflation under fixed exchange rates has tended to be interpreted "as a series or collection of individual national problems, essentially sociological in origin, rather than as an international monetary problem". That this should have occurred was all the more painful to Harry because the classical economists would never have taken such an insular view of inflation: "the monetary impact of Spain's conquest of America and despoilation of its precious metals was regarded by scholars of economic history as a European (i.e., world) phenomenon and not merely as a distinguishing eccentric incident in Spanish economic history."

With the general return to flexible exchange rates in 1973, inflation did indeed become a variable over which individual countries could, via their rates
of monetary expansion, exercise control. Yet except for a few countries examplified by Germany and Switzerland, this went unrecognized. In his last substantive article in a Canadian learned journal, Harry lashed out at this controverted behaviour on the part of the world's policymakers:

"Directly relevant to the current problem [i.e., inflation] is the strange, almost overnight change in world policy opinion from a fundamental misunderstanding of the fixed rate system to a fundamental misunderstanding of the floating rate system, expressed in the contention up to 1973 that inflation was not a world problem, but a national problem to be dealt with primarily be national incomes policy, and the equally convinced assertion—justified only to a small and theoretically arguable extent by 1973 escalation of oil prices—that inflation is a world problem about which national economic policy can do nothing."52

E. Recapitulation

In a very real sense Harry was an historian of contemporary macroeconomics. He painstakingly attempted to elaborate, to analyze, and to integrate the many threads of the current macroeconomic fabric. There is a remarkable consistency in his many survey articles, although they cover a time span of more than two decades. Rare was the occasion when it was necessary to correct or rework some concept that he had developed in a previous commentary. It was as if he carried the collected wisdom of macroeconomics in some special corner of his mind. Whenever a new idea came to light, Harry would inevitably write a piece reviewing it, frequently correct and extend it, and always integrate it into this larger corpus of macro thought in order to highlight both its significance and position in the development of knowledge.
While these surveys were full of insights, Harry seldom developed these insights further. Indeed, this characteristic of Harry as a continuator and improver rather than as an innovator is probably the reason that he took so long to recognize the significance of his most important original contribution to the money and macro literature, namely his conception of the balance of payments as a monetary phenomenon. This insight is embodied in two articles Harry wrote in 1958--"Towards a General Theory of the Balance of Payments"\textsuperscript{53} and "The Balance of Payments".\textsuperscript{54} In these works, Harry was interested in generalizing the "absorption approach" to balance of payments theory. In the process, however, he provided the modern conceptual backdrop for the current monetary approach to the balance of payments:

"A balance-of-payments deficit [i.e., an excess of payments by residents over receipts by residents] implies either dis-hoarding by residents or credit creation by the monetary authorities--either an increase in \( V \), or a maintenance of \( M \). Formulation of the balance-of-payments as the difference between aggregate payments and aggregate receipts thus illuminates the monetary aspects of balance-of-payments disequilibrium, and emphasizes its essentially monetary nature."\textsuperscript{55}

"That balance-of-payments problems are fundamentally monetary phenomena is an important proposition that must always be borne in mind: it is an obvious proposition, but one which is often overlooked."\textsuperscript{56}

Despite the fact that Harry recognized that this was an application of capital theory to monetary theory (an approach that, as noted above, he felt was the essence of Keynes' \textit{General Theory}), he himself managed to overlook this development as it related to monetary theory for the better part of a decade. Moreover, even in his important 1962 AER survey, Harry never refers to this, nor to the more basic consideration of the interaction of domestic money supply and demand with the world economy counterparts. I find this puzzling, to say the least.
Prior to taking leave of Harry's survey pieces, it should be recognized that his 1962 AER survey was far and away the most important because, in addition to synthesizing the various threads of monetary analysis, it also provided a most valuable blueprint for research. It was an important springboard for future work both on monetary growth models and the money supply process. In addition, a whole generation of empirical monetary economists addressed themselves to the three issues he set out: "what specific collection of assets corresponds most closely to the theoretical concept of money...; what the variables are on which the demand for money so defined depends; and third, whether the demand for money is sufficiently stable...". 57

Sprinkled through the above analysis has been a generous number of references relating to the manner and degree to which the profession, or a large part of it, has managed to misinterpret new developments or otherwise convert them, often at significant cost in terms of conceptual relevance, into more traditional modes of analysis. Given Harry's concern with this it is not surprising that he would address the issue of the generation of economic knowledge in a more direct manner. The monetarist counterrevolution article is probably his best piece in the regard.

III. The Sociology and Production of Knowledge

Harry's Richard T. Ely lecture to the 1970 Meetings of the American Economic Association ("The Keynesian Revolution and the Monetarist Counter-Revolution") 58 is at the same time one of his most perceptive and controversial pieces. What he manages to do in this paper is present his views on the determinants of the process by which knowledge is generated, the speed with which it becomes accepted, the manner in which it interacts with the existing hierarchy of personalities in the profession and the degree to which it is likely to supersede existing knowledge.
The way he proceeds to focus on these issues is to pose the question: suppose I were Milton Friedman and I wished to start a counterrevolution in monetary theory, how would I go about it? In a nutshell, he lists five criteria that facilitated the monetarist counterrevolution (and indeed the Keynesian revolution that preceded it): "the attack on a central and widely-held theoretical proposition [money does not matter], the development of a new theory [the restatement of the quantity theory] that absorbed and re-christened the best of the old, the formulation of that theory in terms that challenged the young and enabled them to leapfrog over the old, the presentation of a new methodology [positive economics and a move away from large-scale modelling] that made more economic sense than the prevailing methodology, especially in terms of accessibility to the young and to those outside the established centers of academic excellence, and a new and presumptively crucial empirical relationship [stability of the demand for money] suitable for relatively small-scale econometric testing".  

Harry was of the opinion that the counterrevolution would not exist as orthodoxy for very long. Compared to the Keynesian revolution, it had latched onto a less important issue (inflation as against unemployment). More importantly, the combination of positive economics and the testing of reduced-form models would prove seriously inadequate when compared to the prevailing intellectual standards of the discipline. Thus far, however, I think it remains entrenched partly because of the post-1970 world inflation and partly because of the sudden demise of "disequilibrium dynamics" and the corresponding resurgence of "rational expectations" which, as noted above, refocuses attention on the steady state properties of a model. Nonetheless, I agree with Harry that "if we are lucky we shall be forced as a result of the counterrevolution to be more conscious of monetary influences on the economy. If we are unlucky we shall have to go through a post-counter-revolution revolution as the price of further progress on the monetary side of our science".  

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In his "Monetary Theory and Monetary Policy", written in the same year as the counterrevolution article, Harry elaborates somewhat on the interaction between the structure of the academic establishment and the diffusion of knowledge. In particular he compares the "highly centralized" British academic establishment with its "extremely decentralized" American counterpart in terms of the implications of this difference for the extent of the intellectual conquest of the academic world by the Keynesian revolution:

"In Britain, Keynesianism was successful in virtually sweeping the intellectual board, and becoming the dominant orthodoxy. Those of the older generation who did not accept the new Keynesian orthodoxy had either to shut up and divert their intellectual efforts to another field of economics, or become pitiful and pitied voices crying in the wilderness... In the United States, on the other hand, the diversity and competition of the academic world meant that Keynesianism never succeeded in sweeping the academic board. It conquered Harvard and the eastern establishment, and secured its outposts in the West... but it could not prevent the academic survival of the pre-Keynesian tradition. Moreover, in the United States, in contrast to Britain, it is possible to be both intellectually and academically respectable and, at the same time, a conservative with significant political influence. Hence an anti-Keynesian school, basing itself on a modernized quantity theory of money, could flourish; and it could be... based on institutional and geographical rivalries between men in the same age group rather than on the mechanics of the generation gap as has been necessary in Britain. The intellectual rivalry between Paul Samuelson, as leader of the Keynesians, and Milton Friedman, as leader of the quantity theorists, is a rivalry between generational, intellectual, and institutional equals, a very different kind of rivalry than the conflict in Britain between the older generation in command of Oxford and Cambridge and the younger generation in the provincial universities (which term now includes the London School of Economics)."61

One could continue along this vein virtually ad infinitum62 But I think I have already overdone the issue by treating it under a separate heading. To Harry, the generation of knowledge, the manner in which it is disseminated, the external factors that influenced its acceptance were all part and parcel of the integrated approach adopted to surveying and evaluating modern macro theory and policy. I want, however, to conclude this section
on Harry's approach to the production of knowledge by reproducing part
of Don Patinkin's tribute to Harry on the occasion of the Harry G. Johnson
Memorial Service (Chicago, February 4, 1978):

"To be concerned with the profession means to be concerned
with perpetuating the profession. We are all teachers, we all
have students; but not all of us have given ourselves to our
students with the same concern, with the same interest in
furthering their careers if they were worthy of it and dis-
couraging them if they were not...Harry was notorious for the
fact that if a student gave a paper, he returned it the next
morning with comments. I say notorious because it put the rest
of us...to shame... From the viewpoint of the profession,
he was a citizen of the world. I don't say this in the superficial
sense that he attended conferences all over the world. What I
mean is that he had students all over the world, and he was
concerned with their advancement, their progress, their intellectual
progress, their professional progress, wherever they were. He
was also concerned with the development of economics departments
in different universities, not only in the United States, but in
Canada as well. Thus for many years I have been a regular visitor
at the University of Western Ontario, and from this I know that
Harry was the guru of Western Ontario with whom they consulted on
more than one occasion with reference to the development plans of the
department... He was concerned, not only with that department, but I be-
lieve with other departments in Canada as well. And I suspect...that
he was concerned with the development of economics departments in
other parts of the world as well."

This, of course, transcends Harry's approach to macroeconomics. But in a
curious sort of way his treatment of students compared with faculty members
was very "Keynesian". Harry recounts that in seminars Keynes was very generous
and understanding toward students but would normally pounce on faculty members.  
This, too, was characteristic of Harry.

IV. **Harry as Institutionalist**

The last major area in this review of Harry's contributions to macroeconomics
relates to his concern for the workings of institutions, and in particular the banking
sector. As indicated in the introduction, Harry came to realize that the sheer force of
analytic insight or empirical verification was in general not sufficient to
alter economic policy or the policymakers perception of how the economy worked.
Accordingly, Harry became increasingly aware of the necessity to probe into the preference functions of policymakers. What follows is but a smattering of his many insights both on the operation of the major macro institutions and on the matrix of parameters that influence their decision making.

From a personal standpoint I found some of his early writings in this area particularly fascinating and indeed embarrassing since they fully anticipated my own work on central banking by a full 20 years and I was not even aware of their existence. In his "The Revival of Monetary Policy in Britain" Harry presents a view of the operation of the Bank of England that can be applied with equal validity to the Bank of Canada in the latter's pre-monetalist era. For example, Harry recognized that the Bank of England's emphasis on the role of the 30% liquid asset ratio implied that the Bank was essentially operating under a policy of liquidity management rather than cash management:

"A more important difference from traditional techniques of monetary control is to be found in the enhanced significance of the 30 percent liquidity rule, which can without exaggerating be said to have replaced the 8 percent cash reserve rule as the significant ratio through which monetary policy operates, and in the use of open market operations to influence the supply of liquid assets rather than of cash alone to the banks." 65

Relatedly, if the monetary authorities are attempting to control both the cost and availability of credit, for this to succeed, given any interest rate, they "must reduce the supply of liquid assets to the banks to the point where the banks feel sufficiently illiquid to restrict the supply of credit to their customers." 66 Those familiar with my Money, Inflation and the Bank of Canada will recognize that these are among the points I made with respect to the operations of the Bank of Canada prior to its adopting a more monetarist stance. 67
Much more insight on the operations of central banks is contained in Harry's "Alternative Guiding Principles for the Use of Monetary Policy in Canada," an offshoot of his work for the Royal Commission on Banking and Finance. In the process of sorting out the various alternative approaches to monetary policy, he makes some rather interesting comments about how central banks are likely to behave. Since central banks are in close contact with one special sector of the economy, namely the financial community, it is only to be expected that their views on monetary policy will be influenced by the habits of thinking about economic affairs prevalent in the financial sector, whether or not these assessments are grounded in economic analysis. Harry pursues this line of analysis at some length. What emerges is a very clear application of what has come to be referred to as Stigler's Law—that regulation is in the interests of those being regulated or, in layman's language, that the commercial banks are likely to be the beneficiaries of central bank actions. The analysis of the institutional role of central banks also serves as a precursor for the more recent analysis by Keith Acheson and John Chant which views the Bank of Canada from the vantage point of the theory of bureaus. In addition, Harry engages in a rather extended discussion of moral suasion that anticipates the recent work by Albert Breton and Ron Wintrobe which argues that moral suasion is in the interests of the chartered banks. One sample will suffice:

"The more monopolized the sector is, the more dependent it is on government goodwill, and the more its activities are prominent in or open to public discussion, the more amenable it will be to control by moral suasion...A directive or policy statement from the central bank makes it easier for commercial banks to refuse their customers loans while retaining their goodwill." 69

In short, Harry quite clearly extended his analysis beyond the strict confines of policy and into the nature and operations of the key institutions in the macro policy area.
Harry's last piece written for a Canadian audience (Reserve Requirements and Monetary Control) carried this theme even further. The essential message of the paper was that there was no need for reserve requirements of any kind for efficient monetary control—"reserve requirements amount to a tax on deposit taking institutions, proximately for the benefit of central banks and ultimately for the benefit of the government". This is of course an extension of his earlier JPF article on efficiency and monetary control. Even if banks were not subject to reserve requirements, they would develop normal patterns of reserve holding which would in principle be knowable and predictable to the central bank and its officials and which should and could be taken into account in the formulation and execution of open market policy:

"That is, after all, the point of employing an extensive and presumably highly-trained staff at the central bank: to understand how the financial system works and to use this knowledge in the design of central bank stabilization policy. It is, however, only too understandable, though superficially at least paradoxical, that central bank officials should seek to lighten the burden on their understanding, and reduce their responsibility for error, by pressing for restrictions on the freedom of private institutional profit-maximizing choices in order to increase the predictability of the effect of open market operations on the money supply by crude rule-of-thumb arithmetic."

Harry argues that there is a further, and institutional, rationale for the existence of reserve requirements and this relates to the revenues that accrue to the central banks and the government:

"Clearly, the prestige, stature, and salary and pension entitlements of central bank employees are likely to be higher, the larger the scale of the bond, discount and other market operations the Bank has to conduct, and the larger the gross revenue against which it can charge the salaries and emoluments of the managerial and research staff employees. One need not assume that the central bank governors are overly venal, only that they share the normal belief that pay and perquisites should be proportional to portentiousness of performance. The universality of this principle is attested by the contrast between the opulence of central bank establishments in new ex-colonial nations and the spartan accommodation of currency boards in the few remaining colonies lacking central banks."
Harry concludes the analysis by pointing out that in an open economy alternative payments arrangements (principally supplied by Americans) could become attractive if domestic banking services become relatively too expensive as a consequence of the implicit taxation through high reserve requirements, both primary and secondary:

"The significant point about the availability of American-provided deposit and banking services is not, of course, that this might gradually drive the Canadian product off the market. It is the lesser, but more insidious, prospect that Canadian deposit-taking institutions will continue to provide deposit and banking services to the smaller-scale individual wealth-owners and individual firms, locked in by nationality and ignorance of alternatives to low yields from depositing and high costs of borrowing from deposit institutions, while the large-scale business of better-informed investors and borrowers passes to and through American financial intermediaries, and the profitable innovations are pioneered by foreign financial firms." 75

Turning now to the interaction between institutions and macro policy, it was Harry's view that:

"Central banks have a preference for a fixed exchange rate because it gives them power over governments; hence they are tempted both to manage a floating rate so as to stabilize it, and to try to steer it back towards fixity. Also, in managing monetary policy under a floating rate, their traditional objectives and methods of management--particularly with respect to interest rates--are likely to sacrifice the stabilization advantages of exchange rate flexibility to letting or making the economy fluctuate along with the outside world." 76

This is a rather remarkable statement, especially when one considers that it was written in early 1971. Canada's current inflation is, in large measure, directly the result of our failing to pursue an independent monetary course under flexible rates or, to put it differently, to "peg" the flexible rate at or near parity over the 1971-75 period. Naturally, Harry recognized this:

"The belated decision to re-float the Canadian dollar in 1970 may have been used to pursue genuine independence of Canadian action and policy. But instead, Canadian policy has, for various reasons inherent in the traditional Bank of Canada approach to monetary management, conducted monetary policy as if the economy were still on a fixed exchange rate. Indeed, Canadian monetary policy, until a fairly sharp break seems to have occurred in
late 1975, went even further, into a perverse policy of permitting more inflation and using traditional monetary policy tools less effectively in fighting it, than has been true of American economic policy." 77

Harry's criticism of the Bank went further: in a one sentence summary of my Money, Inflation and the Bank of Canada, Harry viewed the Bank as conveying "the impression, even to the most timidly academic mind, if an institution trying to do a job it does not understand by using tools it does not know either how to select or how to manipulate". 78

The quotation in the beginning of the previous paragraph was remarkable in another sense as well, namely that even in our 1950's float Canada did not insulate herself from the outside world. Harry elaborated on this theme in his 1975 Canadian Public Policy/Analyse de Politique article. Most observers have viewed this period of floating as evidence that exchange rate speculation was stabilizing. Harry did not see it in this light: "In short, Canada has provided impressive evidence for floating rates on tests the successful passing of which is a consequence of the failure of Canadian policymakers to use the floating rate as a foundation for policy independence." 79

Finally, Harry also felt strongly that other instruments in the central bank arsenal--and in particular the lender-of-last-resort function--had outlived their usefulness and now were a source of serious concern:

"The function of lender of last resort to the private financial sector has largely ceased to be a serious problem, barring the occasional case in which mismanagement leads to the danger of bankruptcy for an established financial institution so large that the central bank, or the government, finds it preferable to treat that institution as a public corporation that cannot be allowed to fail. The really serious conflict of objectives in modern times arises instead from the assumed obligation of
the central bank to act as lender of last resort to the government itself; and, governments being what they are, this is a question of lending not at penalty rates but at concessional rates of interest, and de facto of lending not for short periods but on a gentlemen's agreement never actually to demand repayment, only 'refinancing'." 80

Elsewhere, Harry elaborates on this somewhat (in the context of providing a partial rationale for the tendency of government to assume economic obligations for political purposes without at the same time appreciating the revenue requirements):

"The...central government, through its power to create money, has a residual and important power of taxation without representation of the citizenry. This power was constrained in earlier days by the gold standard and the absence of central banking, constraints absent from the present system of discretionary monetary management subservient to the financing needs of the state and floating exchange rates." 81

It was Harry's view that this lender-of-last-resort problem also plagues the international scene as well--the Fund's "oil facility" for concessionary borrowing by poor countries "amounts to reversing the lender-of-last-resort function, symbolized by a penalty rate, into a lender-of-first-resort function, symbolized by a concessory rate and the concentration of lending to those least able to repay". 82 More generally, the corruption of the lender-of-last-resort function and the self-interest of governments were perceived by Harry to be such that he did not hold out much hope for the emergence, via ad hoc attempts at international cooperation, of a "new" IMF and, therefore, a return to an "improved" fixed exchange rate system:

"A camel, so runs a familiar definition, is a horse designed by a committee. What sort of beast [refurbished IMF] is likely to result when the first aim of every committee member is to design an animal that gives himself a free ride and the others the responsibility for providing fodder and water?" 83

This is a rather negative view of international cooperation and of institutions generally and it is characteristic of Johnson to be sure. Nonetheless, Harry's purpose was not in downplaying institutions per se, but rather in exposing them for what they are--generally motivated by
self-interest and likely to become the captive of interest groups. As I have attempted to argue, in this section of the paper, it was natural for Harry, given his overall approach to economics, to extend the analysis of macro policy to include the functioning of the key macro institutions. Indeed, he viewed this as a responsibility. On this (as on most other issues, since I view my role essentially as an intermediary) it is appropriate for Harry to have the last word:

"One of the penalties—or privileges, as the case may be—of advancing age and professional maturation in an academic career in the social sciences is that one is forced to think in terms of progressively broadening frames of institutional and cultural reference. The young economist, whatever may have been his original motivations for becoming an academic, comes out of the graduate student will with a narrow range of specialized skills, and the stamp of his teachers' ideas heavily upon him. He makes his way initially by applying his skills, in an institutional and social context taken as an immutable part of his environment. Only as he acquires confidence, on the one hand, and abrasive experience of the larger extra-departmental and extra-academic world, on the other, can he afford himself the liberty to question society's institutions."
Footnotes

1David Laidler, "Harry Johnson as a Macroeconomist," forthcoming in a special JPE volume.

2It is of interest, perhaps, to provide the context which led to the quotation. Harry went through a rather long mathematical derivation to demonstrate the consistency among the theoretical approaches of the Dutch, the Keynesian and the monetarist models. He was rather apologetic for taking his listeners through this rather tedious exercise and the quotation provided the rationale for it. However, as I hope to demonstrate in this paper, it also provides a rationale for much if not most of Harry’s activities as an economist.


5Ibid, p.86.

6As far as Canadians are concerned, Harry’s most significant venture into empirical economics was the Royal Commission background paper co-authored by John Winder, Lags in the Effects of Monetary Policy in Canada (Working paper prepared for the Royal Commission on Banking and Finance) 1964. This was a very impressive piece of empirical work and it is very unfortunate that it did not reach a larger audience. As a matter of fact, Harry was very proud of this piece of research, and justifiably so. In the preface to his Further Essays in Monetary Economics (FEME) he maintained that he had written only two "real" books—one was the Brookings Study (Economic Policies towards Less Developed Countries), and the other was the monograph with Winder, which, as Harry lamented, "could find no official publication by the government that paid for it, let alone a commercial publisher." (FEME, P.18). Not only is this monograph out of print, but as late as the spring of 1976 Harry did not have a copy of his own. I arranged for the Bank of Canada (via George Freeman) to send Harry a copy—not only was he delighted to receive it but he commented that the role of the Bank of Canada as the "lender of last resort" had finally taken on a meaningful dimension. I shall not comment further in this paper on the Johnson-Winder study. Perhaps this is inappropriate given that this paper is directed toward a Canadian audience, but the line on what to include in this survey had to be drawn somewhere.

7As Laidler notes in his conclusion, for Harry Johnson "the purpose of economics as a Social Science is to arrive at a set of principles for understanding and interpreting the economy that are both scientifically 'robust' and sufficiently simple to be communicable to successive generations of students and policy makers and the general public" ("Major Issues in Monetary Economics," Oxford Economic Papers 1974, p.214.)
8. "Monetary Theory and Monetary Policy," in Further Essays in Monetary Economics, p. 85. Equivalently: "public interest in and discussion of flexible rates generally appears only when the fixed rate system is obviously under serious strain, and the capacity of central bankers and others responsible to avoid a crisis is losing credibility." ("The Case for Flexible Exchange Rates" in FEME, p. 200)

9. It also led him to be very cynical of policymakers and civil servants generally.


11. In the preface to his Essays in Monetary Economics (FEME), Harry acknowledges that in the last chapter of the book, dealing with the international aspect of the monetary problem of LDC's, many of his colleagues will regard him as coming down very harshly on schemes designed to solve the international monetary problem by methods that will channel resources to the less developed countries (e.g., distributing the SDR's to the Third World). His defense is straightforward: "My reason for refusing to endorse such schemes is not that I am opposed to less developed countries receiving more development assistance, but that I think that no useful purpose is served by misapplying economic analysis for political ends" (E.M.E, p. 8).


15. Loc. Cit.


20. As early as 1961 Harry felt that the applicability of capital theory was likely to dominate much of the future theoretical and empirical work so that in the fullness of time we might have to alter our view of Keynes' principal contribution:

"The stimulation given by the General Theory to the construction and testing of aggregative models may well prove to be Keynes' chief contribution to economics in the larger perspective of historical judgment, since the application of capital rather than income concepts to monetary theory may well produce better and more reliable results, and the present predominance of the income-expenditure approach prove to be a transitional stage in the analysis of economic behaviour" ("The General Theory After Twenty-Five Years," in MTEG, p.144).

To a large degree, especially in the area of international money, this capital theoretic approach has indeed eclipsed the income-expenditure approach. This is but one example of the great many insights that run through much of Harry's work in the macro area--insights that often tend to be overlooked in assessing Harry's contribution to the profession because they have long since become part of "received theory."


22. In turn, Friedman's comments were probably much influenced by Patinkin's demonstration that the "oral tradition" stressed the quantity equation and the cumulative instability of velocity so that "what Friedman has actually presented is an elegant exposition of the modern portfolio approach to the demand for money which...can only be seen as a continuation of the Keynesian theory of liquidity preference." Don Patinkin, "The Chicago Tradition, The Quantity Theory and Friedman," Journal of Money, Credit and Banking, Vol.1, No. 1 (February, 1969). Nonetheless, the general observation is relevant.

23. Adapted from Inflation and the Monetarist Controversy, The De Vries Lectures, (Amsterdam, North-Holland, 1972), fn. 7, ch.2.


26."Recent Development in Monetary Policy," in FME, p.84.

27. Ibid, p.78.

29 Inflation and the Monetarist Controversy, op.cit., p.44.

30 "Recent Developments in Monetary Theory," op.cit., p.49.

31 This is taken from chapter 3 of Inflation and the Monetarist Controversy, op.cit.

32 Ibid., pp.78-9.

33 Inflation and the Monetarist Controversy, op.cit., p.86.


35 Shils, op.cit., p.85.


39 Loc.cit.

40 Ibid., p.58.

41 "Recent Developments in Monetary Theory," op.cit., p.37.


43 Ibid, p.38.

44 Tobin, op.cit., p.13.

45 "Recent Developments in Monetary Theory," op.cit., p.41.


48 Ibid, pp.55-56.

49 Ibid, pp.56-57.

51. Ibid, p.76.

52. "Inflation, Unemployment and the Floating Rate," Canadian Public Policy--Analyse de Politique, Vol.1, No. 2, (Spring, 1975), p.177. Note that Harry is referring to the Western world in this quote so that he uses 1973 as the break-point between fixed and flexible rates. For Canada the relevant break-point was the return to flexible rates in June 1970.


59. Ibid, p.63. In Harry's view small-scale econometric testing was appealing to junior economists because in the prevailing Keynesian orthodoxy the tendency "for Keynesian economics to proliferate into larger and larger models...had the important detriment of large sums of scarce research money available only the senior economists and of turning young economists into intellectual mechanics whose function was to tighten one bolt only on a vast statistical assembly line, the end product of which would contain nothing that could visibly be identified as their own work." (Ibid, p.62).

60. Ibid, p.68

61. "Monetary Theory and Monetary Policy," op.cit, pp.82-84. The thrust of the above quote was really to comment on the macro policy approaches in Britain and the U.S.A. I have tailored it to relate principally to the manner in which economic knowledge and its production and distribution interact with the structure of academia.
62 For example, this concern of Harry's that scientific advances get thwarted by professional rivalries, lost perspective, and the like, pervades a great deal of the analysis in his various surveys. Here is but a further example:

"One could add that Keynesian theory has also produced only one important contribution to general economic theory since the second world war. This was Roy Harrod's recognition (Towards a Dynamic Economics, London: Macmillan, 1948) that in addition to the short-run Keynesian problem of whether investment will absorb the saving that income-recipients would like to undertake at full-employment income levels, there is a long-run problem of whether the investment satisfactory to entrepreneurs will grow rapidly enough to maintain full employment of labour in the face of the natural growth of population and the presence of labour-saving technical progress. The Keynesian side of professional analysis of this question has degenerated rapidly into one of two forms, typified by the work of Keynes's successors at Cambridge. On the one hand there has been the effort, typified by Joan Robinson (The Accumulation of Capital, London: Macmillan, 1956) to show by proving fundamental logical flaws in the pure theory of capital that the capitalist system cannot possibly work, regardless of any empirical evidence to the contrary. On the other hand there has been acceptance of the fact that capitalism has in fact worked fairly well during most of its history, and especially in the postwar period, coupled with the effort to prove that the reason cannot be that traditional theories of capitalism were in fact right, but that instead the reason must be found in new and equally unorthodox extensions of Keynesian theory designed to make good the alleged inadequacy of classical theory (see Nicholas Kaldor, Essays in Economic Stability and Growth, Glencoe, Illinois: The Free Press, 1960; especially Part III). The orthodox conservative side of the debate, however, which has been centered in Cambridge, Massachusetts in the persons of Paul Samuelson and Robert Solow, has been equally quick to assume away the scientific relevance of Harrod's extension of the original Keynesian question by constructing models of economic growth that simply assume the maintenance of continuous full employment by a perfectly functioning system of market competition.

It has been extremely unfortunate for the progress of economic science that the two Cambridges have not only neutralized each other in a sterile and essentially ideological debate—a cost characteristic of most scientific advances—but that their feuding has diverted so many young economists into the belief that heroism in this sham battle would advance the cause of economic understanding. As a result, recognizable progress in monetary theory has had to depend on scholars associated neither directly nor indirectly with these institutions of higher learning." (Inflation and the Monetarist Controversy, op. cit., pp. 69-70)

63 As Al Harberger notes, "Harry's wrath fell mainly in some of the mighty within the profession, when he viewed them as misusing the authority they had gained on the basis of their legitimate past contributions. For Harry, an even greater burden of professional responsibility fell on an individual, once he had gained such authority." (Harry G. Johnson Memorial Service, Chicago, February 4, 1978.)

"The Revival of Monetary Policy in Britain," *Three Banks Review* (June, 1956), p. 6

Ibid., p. 7.

It should be mentioned in passing that while Harry's analysis for the Bank of England's approach was commendable, his policy recommendations were very uncharacteristic when compared to his later policy writings. As an example, in these earlier writings, Harry was a supporter of interventionist policies, such as general controls on credit.


Ibid., p. 224.

Economic Council of Canada, Discussion Paper No. 64 (October 1976).

Ibid., p. 23.


*Reserve Requirements and Monetary Control*, op. cit., pp. 11-12.


Ibid., p. 72. As an aside, I think that this quotation brings out the concern for the "average" citizen that I found characteristic of much of Harry's writings. Presumably it reflects, in part at least, his experience as a one-man department of economics at St. Francis Xavier University and his brush with the Antigonish Movement.


Ibid., p. v.

"Inflation, Unemployment and the Floating Rate," op. cit., p. 178.


"International Monetary Reform: The 'Sideways' Approach", op. cit. p. 4.

Ibid. p. 3.